



April 9, 2009

Memorandum

To: Members of the Board

From: Melissa Loughan, Assistant Director
Wendy M. Payne

Through: Wendy M. Payne, Executive Director

Subj: Federal Entity—**Tab**¹

MEETING OBJECTIVES

The primary objective for the April Board meeting is to obtain high level member feedback on an initial Draft Exposure Draft *Federal Reporting Entity* to assist staff in moving forward. Staff will seek Board member's comments on the questions listed in Staff Questions to the Board on the next page. Considering this is a first draft, staff notes certain areas of the draft are to be completed or to be determined, such as the questions to respondents.

BRIEFING MATERIAL

This briefing packet contains the following sections and appendices:

- **Attachment 1- 1st Draft *Federal Reporting Entity* Exposure Draft**
- **Attachment 2- Project Background**

BACKGROUND

As you may recall, there was a brief educational session on the Federal Reserve at the December FASAB meeting. At that time, the Board agreed the Federal Reserve would be reconsidered as part of the federal entity project. However, it was determined it would be more appropriate to do so once the proposed standard was drafted (based on proposed criteria).

Therefore, the Board also directed staff to move forward on drafting a proposed standard. Attached you will find a Draft Exposure Draft on the Federal Reporting Entity for your consideration. This is the first draft so the initial review will be for high-level comments. Staff distributed the Draft to the Federal Entity Task Force for comment and incorporated most of their comments; certain aspects may be included in the Staff Questions to the Board.

¹ The staff prepares Board meeting materials to facilitate discussion of issues at the Board meeting. This material is presented for discussion purposes only; it is not intended to reflect authoritative views of the FASAB or its staff. Official positions of the FASAB are determined only after extensive due process and deliberations.

NEXT STEPS

Staff will continue working with the Task Force to address Board members input and feedback and received on the proposal.

STAFF QUESTIONS TO THE BOARD

(To assist Board members, the questions are also included in the Draft Exposure Draft Federal Reporting Entity in the appropriate section.)

1. Does the Board have any comments on the definitions for reporting entity, federal reporting entity, or component reporting entity?
2. Does the Board have any comments on the General Principles Defining the Boundaries of the Federal Reporting Entity?
3. Does the Board believe there should be a separate standard that addresses ownership parameters and other investments (including appropriate accounting and disclosures)? Or should this standard be more detailed in these respects? Also should the relevance or relationship of stock warrants to ownership be covered as well?
4. Does the Board believe the proposed definition of control is appropriate?
5. Does the Board believe the definition of control, along with the indicators, can be applied by federal reporting entities? Are there other indicators that should be considered? Is there additional guidance that should be provided?
6. Does the Board agree with the situations where control does not exist? Are there others that should be considered or addressed?
7. Does the Board agree with the exemption for temporary ownership and temporary control?
8. Does the Board believe the proposed standard should address related parties and other unique arrangements and required disclosures or should it be in a separate standard?
9. Does the Board believe the proposed standard should provide more explicit examples or alternatively provide an Appendix with examples of certain organizations assessment against criteria?
10. Does the Board believe the discussion and footnotes related to the judicial branch and legislative branch is sufficient?
11. Does the Board have any other comments?

If you have any questions or comments prior to the meeting or would like to provide feedback prior to the meeting, please contact me by telephone at 202-512-5976 or by e-mail at loughanm@fasab.gov.

Attachments

Attachment 1-
1st Draft *Federal Reporting Entity*
Exposure Draft



Federal Accounting Standards Advisory Board

Federal Reporting Entity

Statement of Federal Financial Accounting Standards

Exposure Draft

Written comments are requested by [date 60 days after issuance]

[Month day, year]

Working Draft – Comments from Respondents Are Not Requested on This Draft

THE FEDERAL ACCOUNTING STANDARDS ADVISORY BOARD

The Secretary of the Treasury, the Director of the Office of Management and Budget (OMB), and the Comptroller General, established the Federal Accounting Standards Advisory Board (FASAB or “the Board”) in October 1990. FASAB is responsible for promulgating accounting standards for the United States Government. These standards are recognized as generally accepted accounting principles (GAAP) for the Federal Government.

An accounting standard is typically formulated initially as a proposal after considering the financial and budgetary information needs of citizens (including the news media, state and local legislators, analysts from private firms, academe, and elsewhere), Congress, Federal executives, Federal program managers, and other users of Federal financial information. The proposed standards are published in an Exposure Draft for public comment. In some cases, a discussion memorandum, invitation for comment, or preliminary views document may be published before an exposure draft is published on a specific topic. A public hearing is sometimes held to receive oral comments in addition to written comments. The Board considers comments and decides whether to adopt the proposed standard with or without modification. After review by the three officials who sponsor FASAB, the Board publishes adopted standards in a Statement of Federal Financial Accounting Standards. The Board follows a similar process for Statements of Federal Financial Accounting Concepts, which guide the Board in developing accounting standards and formulating the framework for Federal accounting and reporting.

Additional background information is available from the FASAB or its website:

- “Memorandum of Understanding among the General Accounting Office, the Department of the Treasury, and the Office of Management and Budget, on Federal Government Accounting Standards and a Federal Accounting Standards Advisory Board.”
- “Mission Statement: Federal Accounting Standards Advisory Board”, Exposure drafts, Statements of Federal Financial Accounting Standards and Concepts, FASAB newsletters, and other items of interest are posted on FASAB’s website at: www.fasab.gov.

Federal Accounting Standards Advisory Board

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1 **ISSUE DATE**

2 TO: ALL WHO USE, PREPARE, AND AUDIT FEDERAL FINANCIAL INFORMATION

3 The Federal Accounting Standards Advisory Board (FASAB or the Board) is requesting
4 comments on the exposure draft of a proposed Statement of Federal Financial
5 Accounting Standards entitled, *Federal Reporting Entity*.

6 Specific questions for your consideration begin on page 5 but you are welcome to
7 comment on any aspect of this proposal. If you do not agree with the proposed
8 approach, your response would be more helpful to the Board if you explain the reasons
9 for your position and any alternative you propose. Responses are requested by **DUE**
10 **DATE**.

11 All comments received by the FASAB are considered public information. Those
12 comments may be posted to the FASAB's website and will be included in the project's
13 public record.

14 We have experienced delays in mail delivery due to increased screening procedures.
15 Therefore, please provide your comments in electronic form. Responses in electronic
16 form should be sent by e-mail to fasab@fasab.gov. If you are unable to provide
17 electronic delivery, we urge you to fax the comments to (202) 512-7366. Please follow
18 up by mailing your comments to:

19 Wendy M. Payne, Executive Director
20 Federal Accounting Standards Advisory Board
21 Mailstop 6K17V
22 441 G Street, NW, Suite 6814
23 Washington, DC 20548

24 The Board's rules of procedure provide that it may hold one or more public hearings on
25 any exposure draft. No hearing has yet been scheduled for this exposure draft. Notice
26 of the date and location of any public hearing on this document will be published in the
27 *Federal Register* and in the FASAB's newsletter.

28

29 Tom L. Allen
30 Chairman

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1 Executive Summary

2 What is the Board proposing?

3 This exposure draft (ED) provides general principles that should guide preparers of
4 general purpose financial reports in determining what would be encompassed in a
5 federal reporting entity by defining the boundaries of the reporting entity. This ED
6 provides criteria or indicators that may assist in assessing whether an organization
7 meets the general principles and is within the boundaries of the federal reporting entity
8 and component reporting entities. This ED requires the presentation of consolidated
9 financial reports for those reporting entities and provides for disclosure of condensed
10 information regarding entities subject to temporary control or ownership.

11 The proposed standards would be effective for periods beginning after September 30,
12 2010. Earlier implementation is encouraged.

13 How would this proposal improve federal financial reporting and contribute to 14 meeting the federal financial reporting objectives?

15 The primary reason for defining the federal reporting entity and component reporting
16 entities is to ensure that users of general purpose financial reports (GPFR) will be
17 provided with complete financial information about the federal entity and its
18 involvements. Clearly defining the boundaries enables users to understand the
19 organizations encompassed by the federal reporting entity and ensures that the
20 financial statements contain all the information essential for fair presentation of the
21 financial position and results of operations and excludes information that would not
22 result in fair presentation. Defining the boundaries of the federal reporting entity and
23 component reporting entities also ensures consistency and completeness in what
24 reporting entities encompass.

25 In meeting the *Objectives of Federal Financial Reporting* identifying the organizations
26 for inclusion in the federal reporting entity and component reporting entities and
27 consolidation are critical to creating transparent reports to support accountability. As a
28 democracy, elected officials are to be held accountable to the public and financial
29 statements provide them with a means of doing so.¹ In order to achieve accountability,
30 the content and structure of the financial reports should be clear, complete and
31 comprehensive to citizens.

¹ Par. 74, SFFAC 1, *Objectives of Federal Financial Reporting*.

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1 Questions for Respondents

2 The FASAB encourages you to become familiar with all proposals in the Statement
3 before responding to the questions in this section. In addition to the questions below,
4 the Board also would welcome your comments on other aspects of the proposed
5 Statement.

6 The Board believes that this proposal would improve federal financial reporting and
7 contribute to meeting the federal financial reporting objectives. The Board has
8 considered the perceived costs associated with this proposal. In responding, please
9 consider the expected benefits and perceived costs and communicate any concerns
10 that you may have in regard to implementing this proposal.

11 Because the proposals may be modified before a final Statement is issued, it is
12 important that you comment on proposals that you favor as well as any that you do not
13 favor. Comments that include the reasons for your views will be especially appreciated.

14 The questions in this section are available in a Word file for your use at
15 www.fasab.gov/exposure.html. Your responses should be sent by e-mail to
16 fasab@fasab.gov. If you are unable to respond electronically, please fax your
17 responses to (202) 512-7366 and follow up by mailing your responses to:

18 Wendy M. Payne, Executive Director
19 Federal Accounting Standards Advisory Board
20 Mailstop 6K17V
21 441 G Street, NW, Suite 6814
22 Washington, DC 20548

23 All responses are requested by **[insert date]**.

24 **Q1. Questions TBD**

25 Q2.

26 Q3.

27 Q4.

28 Q5.

29 Q6.

1 Introduction

2 Purpose

- 3 1. Although Statement of Federal Financial Accounting Concepts (SFFAC) 2,
4 *Entity and Display*, addresses reasons for identifying reporting entities and
5 criteria for including components in a reporting entity, questions have
6 continued in this area.²
- 7 2. The primary reason for defining the federal reporting entity is to ensure that
8 users of general purpose financial reports (GPFR) will be provided with
9 complete financial information about the federal reporting entity and its
10 involvements. The structure of the federal government has become
11 increasingly complex and, as such, it is important to identify organizations
12 that would be consolidated into the GPFR of the U.S. government and into
13 each component entity's financial statements.
- 14 3. This Statement provides general principles that should guide preparers of
15 GPFR in determining what would be encompassed in a federal reporting
16 entity by defining the boundaries of the reporting entity. This Statement
17 provides criteria and indicators that may assist in assessing whether an
18 organization meets the general principles and is within the boundaries of the
19 federal reporting entity. This Statement requires the presentation of
20 consolidated financial reports for those federal reporting entities and
21 provides for disclosure of condensed information regarding entities subject
22 to temporary control or ownership.

23 Materiality

- 24 4. The provisions of this Statement need not be applied to immaterial items.
25 The determination of whether an item is material depends on the degree to
26 which omitting or misstating information about the item makes it probable
27 that the judgment of a reasonable person relying on the information would
28 have been changed or influenced by the omission or the misstatement.

29 Effective Date

- 30 5. The proposed standards are effective for periods beginning after September
31 30, 2010. Earlier implementation is encouraged.

² SFFAC 2 is a Concepts Statement and is considered Other Accounting Literature in the hierarchy of generally accepted accounting principles (GAAP) and therefore it level d in the GAAP hierarchy.

Federal Accounting Standards Advisory Board

Federal Reporting Entity

Date of Document (same as on cover)

Working Draft - April 14, 2009 DM XXXXXXXX

1 Proposed Standards

2 Scope

- 3 6. This Statement applies to federal reporting entities that prepare general
4 purpose financial reports (GPFR) in conformance with generally accepted
5 accounting principles (GAAP)³ issued by the Federal Accounting Standards
6 Advisory Board (FASAB).
- 7 7. This Statement does not specify which federal entities are reporting entities
8 and must prepare and issue GPFR.
- 9 8. This Statement articulates general principles that should guide preparers of
10 GPFR in determining what would be encompassed in the federal reporting
11 entity and its component reporting entities by defining their boundaries.
12 This Statement provides criteria and indicators that may assist in assessing
13 whether an organization meets certain general principles and is, therefore,
14 within the boundaries of the federal reporting entity and its component
15 reporting entities.
- 16 9. This Statement requires that any GPFR present consolidated financial
17 reports for all organizations within the boundary of the federal reporting
18 entity as well as component reporting entities and provides for disclosure of
19 condensed information regarding entities subject to temporary control or
20 ownership.

21 Definitions

- 22 10. Definitions in paragraphs 11-13 are presented first in the proposed
23 accounting standards because of their importance in understanding the
24 Statement. Other terms shown in **boldface type** the first time they appear
25 in this document are presented in the Glossary at Appendix C. Users of this
26 document may want to examine all definitions before reviewing the
27 proposed accounting standards and Basis for Conclusions.
- 28 11. **Reporting Entity** A reporting entity is an entity⁴ that issues GPFR in
29 accordance with GAAP. It issues reports because either there is a statutory

³ The AICPA has designated the FASAB as the source of GAAP for federal reporting entities. Therefore, FASAB GAAP would be the appropriate accounting standards for federal reporting entities in the executive, legislative, and judicial branches.

⁴ The term "entity" is a general term used to refer to any legal, administrative or organizational structure or unit. See paragraphs 29-38 of SFFAC 2.

- 1 or administrative requirement to prepare them or it chooses to prepare
2 them.
- 3 An entity may choose to issue GPFR to communicate financial and related
4 information about the entity because
- 5 a. It is reasonable to expect there are users of the GPFR that would
6 benefit;
- 7 b. The scope would provide a meaningful representation and demonstrate
8 accountability; or
- 9 c. It would be helpful for managing government operations and there is a
10 management responsible for controlling and deploying resources.
- 11 12. **Federal Reporting Entity** The federal reporting entity is the largest
12 reporting entity in the federal government that encompasses all
13 organizations existing within the federal government, which are the
14 executive, legislative, and judicial branches as well as other organizations
15 assessed to be included in the federal reporting entity based on the general
16 principles and criteria outlined in this statement.
- 17 13. **Component Reporting Entity** Component reporting entity is used broadly
18 to refer to an entity within the larger federal reporting entity that issues
19 GPFR. Examples of component reporting entities include executive
20 departments, independent agencies, and government corporations.
21 Component reporting entities would also include sub-components
22 (organizations that are part of a larger component reporting entity⁵) that
23 prepare GPFR. An example may include a bureau of a larger department
24 that prepares stand alone financial statements. Other examples may
25 include commercial functions, revolving funds, and/or other accounts for
26 which financial statements will be prepared.

27 ***Does the Board have any comments on the definitions for reporting entity, federal***
28 ***reporting entity, or component reporting entity?***

29

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⁵ Often financial statements that present aggregations of information for organizations such as an administration or a bureau are more useful than statements at the higher component level. Such statements can provide a better understanding of the financial results and status of the many individual organizations and programs constituting a department or major agency.

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General Principles Defining the Boundaries of the Federal Reporting Entity

14. Clearly defining the boundaries of the federal reporting entity and the component reporting entity ensures that the financial statements contain all the information essential for fair presentation of the financial position and results of operations and excludes information that would not result in fair presentation. Defining the boundaries of the federal reporting entity and the component reporting entity also ensures consistency and completeness in what organizations or involvements the reporting entity encompasses.
15. The general principles in paragraphs 16 through 18 define the boundaries of the federal reporting entity and the general principles in paragraph 19 define the boundaries of the component reporting entity.
16. The federal reporting entity encompasses all the organizations existing as a matter of law within the federal government, which is the executive, legislative and judicial branches. See par. 23 through 25 for discussion of this principle and related criteria for assessing.
17. The federal reporting entity also includes organizations outside of those branches or whose legal status is outside of the federal government that the federal government owns or for which it is directly financially accountable. See par. 26 through 38 for discussion of this principle and related criteria for assessing.
18. The federal reporting entity also includes organizations outside of those branches or whose legal status is outside of the federal government over which the federal government exercises control with expected benefits or risk of loss. See par. 39 through 47 for discussion of this principle and related criteria for assessing.
19. Likewise, a component reporting entity would include all the organizations that the component entity owns or for which it is directly financially accountable; or over which it exercises control with expected benefits or risk of loss.

Does the Board have any comments on the General Principles Defining the Boundaries of the Federal Reporting Entity?

1 Consolidation Requirements

- 2 20. The federal reporting entity (and component reporting entities) should
3 consolidate all organizations that fall within the boundaries of the federal
4 reporting entity (and component reporting entities).⁶ As such, organizations
5 within the boundaries of the reporting entity need to ensure all relevant
6 financial information is provided to the consolidating reporting entity.
- 7 21. Consolidation aggregates the individual financial statements of
8 organizations comprising a reporting entity. Consolidation is a method of
9 accounting that combines the accounts of those organizations line by line
10 on a uniform basis of accounting and eliminates balances and transactions
11 among the organizations. For selected financial statements such as the
12 statement of budgetary resources, a combined financial statement which
13 does not eliminate balances and transactions among the organizations is
14 appropriate.

15 Criteria for Assessing the Boundaries of the Federal Reporting Entity

- 16 22. Each general principle identified above requires criteria or indicators and
17 guidance to assist in application. This Statement provides criteria or
18 indicators that may assist in assessing whether an organization meets the
19 general principles and is within the boundaries of the federal reporting
20 entity. Further, certain determinations will require the use of professional
21 judgment.

22 Organizations within the Federal Government

- 23 23. The federal reporting entity encompasses all the organizations existing as a
24 matter of law within the federal government, which is the executive,
25 legislative and judicial branches.⁷
- 26 24. An organization is considered within the federal government because its
27 legal status is within the federal government. If an organization meets this
28 criterion, no further assessment is required; it is considered part of the
29 federal reporting entity.

⁶ The remainder of the Statement will refer to 'federal reporting entity' but should be understood to also mean component reporting entities preparing GPFR as those entities would refer to this Statement to determine the boundaries of the component reporting entity.

⁷ The fundamental organization of the U.S. federal government is established by the Constitution.

1 25. Organizations not meeting this criterion would be assessed against the
2 other broad principles and related criteria and indicators detailed below.

3 Financial Accountability and Ownership

4 26. The federal reporting entity should comprise the organizations that it owns
5 or for which it is directly financially accountable.

6 27. SFFAC 1, *Objectives of Federal Financial Reporting*, provides the
7 Budgetary Integrity Objective that states “Federal financial reporting should
8 assist in fulfilling the government’s duty to be publicly accountable for
9 monies raised...”

10 28. A federal reporting entity is financially accountable for all organizations
11 encompassed in its budgetary reporting requirements. It would include all
12 organizations that are in the *Budget of the United States Government* (aka
13 the President’s budget) because the federal government claims
14 responsibility for their funding activities.

15 29. Therefore, an organization that is included in the *Budget of the United*
16 *States Government Analytical Perspectives* section currently entitled
17 *Federal Programs by Agency and Account* should be considered part of the
18 federal reporting entity, as well as part of the component entity with which it
19 appears.

20 30. However, an appropriation to a federal entity that finances a subsidy to a
21 non-federal entity would not alone necessitate inclusion of the non-federal
22 entity because the non-federal entity is not directly responsible for meeting
23 budgetary reporting requirements.

24 31. It is important to recognize there are organizations within the federal
25 government that are partially on budget and receive only a portion or
26 perhaps minimal funding via appropriation.

27 32. In these cases, as a general rule, those organization receiving over 50%
28 appropriation would be considered part of the federal reporting entity. In
29 cases where the federal government does not provide over 50%
30 appropriation, it is possible to control an organization and therefore the
31 control principle detailed below must be considered.

32 33. Organizations that are owned by the federal government fall within the
33 boundaries of the federal reporting entity.

34 34. The federal government may acquire an ownership interest in an
35 organization. An **ownership interest** is a claim on the residual assets of an
36 organization, such as holding shares or other formal equity structure. A
37 formal equity structure includes share capital or an equivalent form of

- 1 unitized capital, or other equity structures in which the interest can be
2 measured reliably.
- 3 35. The holding of an ownership interest often entitles the holder to an
4 equivalent percentage interest in voting rights, but not always. In the
5 federal government there may be instances of:
- 6 a. Ownership interest with voting (controlling) interest;
7 b. Ownership interest without voting (controlling) interest; and
8 c. Control without ownership interest, which is addressed in the Control
9 section.
- 10 36. As a general rule, an ownership interest with over 50% of the voting shares
11 or 50% of the residual assets⁸ of an organization is considered within the
12 boundaries of the federal reporting entity and should be consolidated in the
13 federal reporting entity.
- 14 37. As noted above, although the federal government may not hold a majority
15 ownership interest, it is possible to control an organization and therefore the
16 control principle detailed below must be considered.
- 17 38. Disclosures for minority ownership interests that are not consolidated in the
18 federal reporting entity are required as follows:
- 19 a. Nature and amount of the ownership interest;
- 20 b. Condensed financial information including the assets, liabilities,
21 equity/debt investment and other financial related exposures to potential
22 gain and risk of loss to the federal reporting entity resulting from the
23 ownership ; and
- 24 c. Other information that would provide an understanding of the possibility of
25 potential financial reporting impact.

26
27 ***Does the Board believe there should be a separate standard that addresses***
28 ***ownership parameters and other investments (including appropriate accounting***
29 ***and disclosures)? Or should this standard be more detailed in these respects?***
30 ***Also should the relevance or relationship of stock warrants to ownership be***
31 ***covered as well?***

32

⁸ For example, the federal government may hold more equity in preferred stock than all other stockholders (such as the financial institutions under TARP) but the preferred stock may be non-voting.

Control

- 1 Control
- 2 39. The federal reporting entity should comprise the organizations over which it
- 3 exercises control.
- 4 40. For purposes of defining the boundaries of the federal reporting entity for
- 5 financial reporting, control is defined as follows: **Control** is the power to
- 6 govern the financial and/or operating policies of another organization with
- 7 expected benefits (or the risk of loss)⁹ to the federal reporting entity.
- 8 41. Control for these purposes refers to active or current control. It must be
- 9 assessed at the reporting date regardless of the federal reporting entity's
- 10 ability to change it in the future. In determining if control exists, it is
- 11 necessary to determine the substance of the relationship between the
- 12 federal reporting entity and the organization as it may not be completely
- 13 reflected by their legal form.
- 14 42. Control does not necessarily mean the federal reporting entity has
- 15 responsibility for the management of the day-to-day operations of the other
- 16 organization. It is the federal reporting entity's authority to determine the
- 17 policies governing those activities that indicates control. All relevant
- 18 aspects and implications of each relationship would be considered in
- 19 determining whether or not control exists.
- 20 43. Determining whether control exists requires the application of professional
- 21 judgment. The federal government achieves its objectives through a wide
- 22 range of organizations which individually will fall somewhere along a
- 23 continuum. At one end of the continuum, it will be clear that an organization
- 24 does not have the power to act independently and is controlled by the
- 25 federal reporting entity. At the other end, the organization will have the
- 26 power to act independently and, while the federal government may have a
- 27 level of influence on the organization, it will be clear that it does not have
- 28 control.
- 29 44. Along the continuum, consideration needs to be given to the nature of the
- 30 relationship between the federal government and the organization in order
- 31 to determine whether control exists. Determining whether the federal
- 32 reporting entity controls another organization requires the application of
- 33 professional judgment and a careful consideration of the surrounding facts
- 34 and circumstances, the substance of the relationship and the definition of
- 35 control.

⁹ The expected benefit or risk of loss may be financial or non-financial. For example, a non-financial benefit would be the federal government benefits from a service being provided on its behalf.

1
2 ***Does the Board believe the proposed definition of control is appropriate?***

3 *Indicators of Control*

- 4
- 5 45. There are certain indicators of control that should be considered in
6 determining whether the federal government controls an organization.
7 These indicators provide strong evidence of control, however; the absence
8 of one of these specific indicators does not lead to a presumption that
9 control is not present. The assessment of whether control exists should
10 include consideration of all the facts and circumstances of a particular
11 relationship.
- 12 46. There are certain indicators¹⁰ that provide more persuasive evidence of
13 control. Control generally exists when the federal government:
- 14 a. Has the authority to unilaterally appoint or remove a majority of the
15 governing board members of another organization;
- 16 b. Has the authority to govern or direct the governing body on the financial
17 and operating policies of the organization or holds a voting majority that
18 would permit it to govern the financial and operating policies of the
19 organization;
- 20 c. Has ongoing access to another organization's assets or has the ability
21 to direct the ongoing use of those assets, or has ongoing responsibility
22 for losses; or
- 23 d. Has the authority to unilaterally dissolve the organization thereby having
24 access to the assets and responsibility for the obligations.
- 25 47. Other indicators that provide evidence that control exists are when the
26 federal government has the power to:
- 27 a. Provide significant input into the appointment of members of the
28 governing body of the organization or being involved in the appointment
29 or removal of a significant number of members;

¹⁰ The indicators noted in par. 46 and 47 provide support for either the power and/or benefit part of the control definition. When assessing control for financial reporting purposes, a federal reporting entity should consider both the power and benefit for determining control.

-
- 1 b. Establish or amend the organization's fundamental purpose and
2 mission;
- 3 c. Require the organization to carry out federal missions and objectives
4 which results in the organization being an integral part of the federal
5 government's exercise of its sovereign power to carry out federal
6 functions such as powers to collect compulsory payments and conduct
7 negotiations involving the interest of the United States with other
8 nations;
- 9 d. Appoint or remove key executives or personnel;
- 10 e. Approve the budgets or business plans for the organization;
- 11 f. Ability to veto, overrule, or modify governing board decisions or
12 otherwise significantly influence normal operations;
- 13 g. Establish or amend management policies;
- 14 h. Establish limits or restrictions on borrowing and investments of the
15 organization; or
- 16 i. Restrict the capacity to generate revenue of the organization, especially
17 the sources of revenue.

18

19 ***Does the Board believe the definition of control, along with the indicators can be***
20 ***applied by federal reporting entities? Are there other indicators that should be***
21 ***considered? Is there additional guidance that should be provided?***

22 *Situations Where Control Does Not Exist*

23

- 24 48. Because of the uniqueness of the federal government, it is important to
25 distinguish what doesn't constitute control. Specifically, control would not
26 be inferred from:
- 27 a. Regulatory powers;
- 28 b. Constitutional responsibility; or
- 29 c. Purchase power.

- 1 49. The federal government has the power to regulate the behavior of many
2 organizations by use of its sovereign and legislative powers. The federal
3 government has the power to regulate the behavior of many organizations
4 by imposing conditions or sanctions on their operations. However, the
5 governing bodies of the regulated organizations make decisions within the
6 regulatory framework. Regulatory powers do not constitute control for
7 purposes of defining the boundaries of the reporting entity because the
8 government's interest in these organizations extends only to the regulatory
9 aspects of the operations.
- 10 50. Control does not stem simply from the federal government's constitutional
11 responsibility for a certain activity. When the federal government has
12 constitutional responsibility for a certain activity, it does not mean the federal
13 government controls all the organizations performing such activities. The
14 nature of the relationship between the federal government and the
15 organization performing the activity is the determining factor.
- 16 51. Purchase power does not constitute control for purposes of defining the
17 boundaries of the reporting entity. Certain organizations may be
18 economically dependent on the federal government but ultimately retain
19 discretion as to whether it will accept funding or do business with the federal
20 government. For example, many not-for-profits rely on the federal
21 government funding but that does not mean they are controlled by the
22 federal government. Although the federal government may be able to
23 influence the organization which is dependent on its funding or business
24 through purchase power, the federal government does not govern the
25 organization's financial and operating policies.

26

27 ***Does the Board agree with the situations where control does not exist? Are there***
28 ***others that should be considered or addressed?***

29

30 Temporary Ownership and Control and Required Disclosures

- 31 52. Temporary existence of conditions that meet the general principles and
32 criteria are situations where the conditions are only expected to be short-
33 term or not likely to remain in existence for a long period of time. This would
34 include situations where the stated intent of the federal government's
35 activities is short term. Short term is considered to be one year or less.

-
- 1 53. In these types of situations, the organizations would be excluded from
2 consolidation in the federal reporting entity. However, certain disclosures
3 would be appropriate as described in par. 59.
- 4 54. For example, situations where existence may be temporary or short term, as
5 defined above, are:
- 6 a. Temporary control with no plan of continuing control but the federal
7 government instead plans to relinquish or cede control in the near future;
8 and
- 9 b. Temporary ownership where the organization is acquired by the federal
10 government and held exclusively with a view of being subsequently
11 disposed in the near future.
- 12 55. The federal government's ability to take temporary control of an organization
13 in exceptional circumstances--such as a crisis situation--would be
14 considered an example of temporary control. Such circumstances would
15 arise as a result of specific events or conditions that caused the federal
16 government to intervene in the activities of the organization.
- 17 56. The federal reporting entity should be committed to a formal plan that
18 demonstrates the temporary nature of the situation and there is no realistic
19 possibility of withdrawing from that plan. For example, the plan would detail
20 the intent to dispose of or no longer control the specific organizations where
21 the situations are deemed temporary.
- 22 57. Typically, the temporary exclusion exemption would be applicable to one
23 reporting period for situations because the arrangements are not expected
24 to be long term. However, in certain instances it may last more than one
25 successive reporting period due to timing and in some rare instances due to
26 other circumstances beyond the control of the federal reporting entity. In
27 such situations, the federal reporting entity should demonstrate an ongoing
28 intent to dispose of or no longer control the specific organizations.
- 29 58. There are certain federal entities whose mission may include taking control
30 or ownership for of an organization that may last longer than one year but
31 not to maintain it. For example, the FDIC may act in a receivership
32 arrangement to take over assets of failing banks. See the discussion of
33 Conservatorship and Receivership below under Related Party
34 Arrangements and Disclosures.
- 35 59. Disclosures for temporary situations should include the following:

- 1 a. Nature of the federal government's relationship with the organization;
- 2 b. Explanation of the temporary nature and intended timeframes;
- 3 c. Condensed financial information including the assets, liabilities,
4 equity/debt investment and other financial related exposures to potential
5 gain and risk of loss to the federal reporting entity resulting from the
6 temporary control; and
- 7 d. Other information that would provide an understanding of the possibility of
8 potential financial reporting impact.

9 ***Does the Board agree with the exemption for temporary ownership and temporary***
10 ***control?***

11 Related Parties / Other Unique Arrangements and Required Disclosures

12

13 ***Does the Board believe the proposed standard should address related parties***
14 ***and other unique arrangements and required disclosures or should it be in a***
15 ***separate standard (after compared against criteria)?***

16 **60. Related parties** are organizations with whom the federal government has a
17 relationship, but is not determined to be part of the federal reporting entity.

18 **61. Fed Reserve (if determined not within boundaries)**

19 **62. Conservatorships/Recivership (if determined not within boundaries)**

20 **63. FFRDC (if determined not within boundaries)**

21 **64. GSEs (if determined not within boundaries)**

22 **65. Bailouts**

23 **Does the Board believe the proposed standard should provide more explicit**
24 **examples or alternatively provide an Appendix with examples of certain**
25 **organizations assessment against criteria?**

1

2 **Effect on Existing Concepts**

3 66. This Statement affects existing Concepts is amended as follows:

4 **COMPARE FINAL TO SFFAC 2 to determine any necessary**
5 **amendments**

6

7 **Effective Date**

8 67. These standards are effective for periods beginning after September 30,
9 2010. Earlier implementation is encouraged.

10

The provisions of this Statement need not be applied to immaterial items.

Appendix A: Basis for Conclusions

This appendix discusses some factors considered significant by Board members in reaching the conclusions in this Statement. It includes the reasons for accepting certain approaches and rejecting others. Individual members gave greater weight to some factors than to others. The standards enunciated in this Statement—not the material in this appendix—should govern the accounting for specific transactions, events, or conditions.

Introduction

A1. Defining the boundaries for each reporting entity is very important in financial reporting. Most would agree that accounting information pertains to entities and entities use financial reports to communicate information to people concerned or interested in the entity. Therefore, the primary reason for defining the reporting entity is to ensure that users of general purpose federal financial reports (GPFFR) will be provided with complete financial information about the entity and its involvements.

A2. Clearly defining the boundaries of the reporting entity enables users to understand the organizations encompassed by the entity. The structure of the federal government has become increasingly complex and, as such, it is important to identify organizations that would be consolidated in the GPFFR of the U.S. government and in each component entity's financial statements.

TO BE COMPLETED**Project History****Task Force****Application to Legislative and Judicial Branches**

The FASAB's sponsors do not prescribe accounting standards for the legislative and judicial branches. The legislative and judicial branches, and most entities within those branches, are not currently required to prepare financial statements and those that do prepare statements are not subject to any requirements by the FASAB's sponsors to follow FASAB GAAP or prepare a reconciliation between FASAB GAAP and FASB GAAP. However, as the source of GAAP for federal reporting entities,

-
- 1 FASAB GAAP would be the appropriate accounting standards for these entities to
 - 2 adopt if they prepare GAAP-based financial statements.
 - 3
 - 4

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1 Appendix B: Abbreviations

2	CFR	Consolidated Financial Report
3	ED	Exposure Draft
4	FASAB	Federal Accounting Standards Advisory Board
5	FASB	Financial Accounting Standards Board
6	GAAP	Generally Accepted Accounting Principles
7	GPFR	General Purpose Financial Reports
8	RSI	Required Supplementary Information
9	SFFAC	Statement of Federal Financial Accounting Concepts
10	SFFAS	Statement of Federal Financial Accounting Standards
11	U.S.	United States

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1 Appendix C: Glossary

2

3 **TO BE COMPLETED**

4

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**Attachment 2-
Project Background**

Project Background

December 2008

The primary objective for the December Board meeting was to provide an educational session on the Federal Reserve and other English speaking nations' central bank systems so that Board members could determine if whether to address the Federal Reserve explicitly in the federal reporting entity project. The briefing materials contained a staff paper with information on the Federal Reserve with appendices of Board of Governors Financial Statements and the Combined Financials Statements for the Federal Reserve Banks as well as brief summary of other Central Banks.

Staff presented the ownership of the Federal Reserve is much different when compared to other central banks researched. All of the other central banks were owned 100% by the respective government. In addition, treatment of the central banks in the consolidated government-wide financial statements differs among the countries, with two countries fully consolidating the central bank activities.

Staff also noted the difference in ownership and structure with the Federal Reserve Banks could lead to looking at the issue of whether the Federal Reserve System in its entirety (including both the Board of Governors and the Federal Reserve Banks) should be part of the federal reporting entity or alternatively looking at each individually may be more appropriate. Staff also explained that explicit consideration does not necessarily mean the Federal Reserve would be consolidated in the Federal Entity; it may lead to determining there should be some other specific disclosures.

The Board agreed that staff will continue working toward finalizing an Exposure Draft in the Federal Entity project and the Federal Reserve would be considered as part of the Federal Entity project once the criteria are finalized.

October 2008

At the October Board meeting, staff presented a summary of the most recent Federal Entity Task Force meeting. In addition, staff provided a brief summary of the results of the Survey on Boundaries of the Federal Reporting Entities and the Federally Funded Research and Development Centers (FFRDC) Survey. The survey provided the following general observations (detailed analysis and results of the survey can be found in the October Board Materials):

- The results of the survey demonstrated that much of the CFO and IG community does not rely on the current Concepts statement and there is a need for the boundaries of the reporting entity to be addressed in a Standard.
- The survey provided an opportunity to gather information on the current staff proposal. Most of the respondents agreed with the three general principles and suggested this would be a more comprehensive approach.

Staff explained the federal entity task force met to discuss the results of the surveys and to determine next actions and recommendations. Based on the respondents agreeing with the general principles and approach, the task force agreed it would be best to move forward finalizing language in the proposed standard. The Board agreed with the recommendation.

The task force also recommended that either FASAB or JFMIP could write a letter directed to the appropriate committees encouraging legislation that would require all branches to report. The general consensus was that it is not within FASAB's purview to make such a recommendation. Although the Board agrees all branches should be required to report, the Board would not aggressively seek legislation but instead would try to make others aware of the issue. Instead, the Board agreed that FASAB would take a stand on the issue in the proposed ED by defining the federal entity to include all branches.

The task force recommended the issue of whether the Federal Reserve System should be included or excluded from the federal reporting entity should be revisited. The Board agreed with this recommendation. Staff will provide an educational session at the next Board meeting by providing background materials on the Federal Reserve and determining how other countries treat central banking systems.

August 2008

Staff continued to analyze responses received on the Survey on Boundaries of the Federal Reporting Entities and the Federally Funded Research and Development Centers (FFRDC) Survey. Staff summarized the results of the surveys for consideration by the Federal Entity Task Force. The Federal Entity Task Force will meet on September 17, 2008 to discuss the results and next steps in the project. Staff will brief the Board at the next Board meeting.

June 2008

The Federal Entity project was not on the agenda for the June Board meeting. However, staff provided the Board with an update to explain the status and provide an opportunity for members to discuss any issues or questions during the Administrative session of the Board meeting.

Staff explained that the Survey on Boundaries of Federal Reporting Entities was distributed to the financial management community in mid-May. The survey seeks information on organizations considered questionable or unique when assessed in relation to the boundaries of the reporting entity and criteria used in the assessment. The survey also seeks feedback on certain aspects of SFFAC 2 as well as input on current proposals.

Staff also explained that staff developed and distributed a separate survey directly to (Federally Funded Research and Development Centers) FFRDCs on June 16, 2008. The survey seeks information to gain a better understanding of FFRDCs' perspective of how they view their relationship with the federal government. The survey seeks information on the relationship with the federal government, other organizations that may influence the FFRDC, and current financial reporting.

May 2008

FASAB sent out a survey to the Chief Financial Officers and Inspectors Generals. The survey (Survey on Boundaries of Federal Reporting Entities) will assist FASAB in the Federal Entity project. FASAB formed a task force with representatives from the financial management community to assist staff in developing the standards. The task force agreed it would be helpful to survey the community to determine organizations considered questionable or unique when assessed. The survey seeks information on those types of organizations, current financial reporting treatment, and criteria used to assess whether to include the organization in the reporting entity or not. The survey also seeks feedback on certain aspects of SFFAC 2 as well as input on current proposals.

April 2008

At the April 2008 Board meeting, staff provided the Board with an update on the project and the Federal Entity Task Force. The Federal Entity Task Force held its first meeting in late February. The summary of key points developed by the task force included:

- A survey of the community to identify organizations would be helpful
- Preference for a principles-based approach in the standard
- Proposed standard should address consolidation and other disclosures
- General principles stand alone

- All branches of the federal government should report
- Ownership is separate from control
- Control is key factor in assessing boundaries
- Exceptions and other organizations to be considered at future federal entity task force meetings
- Separate meeting with intelligence representatives to occur

The Board approved staff recommendations for next steps in the Federal Entity project. Specifically, staff will distribute a survey to the federal financial management community to obtain feedback and examples of 'questionable' organizations that have been considered in determining the boundaries of entities. The survey will also assess current treatment and criteria used. Staff will also send a separate survey directly to FFRDCs to gather information. Additionally, staff plans to work with Treasury, GAO and the task force to further research issues with the legislative and judicial branches and assess whether it is material to the CFS. Staff will also continue work with the task force on developing specific definitions, finalizing the principles and developing criteria for the boundaries of the reporting entity.

February 2008

FASAB formed the Federal Entity Task Force to assist in developing the proposed standards on the boundaries of the reporting entity and consolidation. The task force has approximately 20 members with representatives from various CFO and OIG organizations as well as OMB, GAO, and Treasury. The task force also has representatives from agencies that deal with hybrid organizations (such as FFRDCs) and intelligence agencies because of their unique nature. The first task force meeting is February 20, 2008. Staff will report back to the Board after meeting with the task force.

December 2007

At the December 2007 meeting, the Board discussed an updated outline paper on the boundaries of the federal reporting entity. The paper highlighted that all organizations within the three branches of the federal government are part of the federal reporting entity. In addition, the federal reporting entity includes all organizations that:

- the federal government is directly financially accountable for or owns;
- the federal government exercises control over; or
- the nature and significance of their relationships with the federal government are such that the exclusion would cause the government's financial statements to be misleading or incomplete.

The outline paper included specific, detailed criteria for each of the broad areas identified as well as an expanded introduction that included a discussion of component reporting entities. The Board members provided general comments on the paper. The Board approved staff's plan to form a task force to assist in developing the proposed standard on the boundaries of the reporting entity and consolidation.

Staff formed the task force and it includes members from the CFO, OIG, and IPA communities as well as specific representatives from agencies that deal with quasi government / hybrid organizations (such as FFRDCs), and intelligence agencies. It was agreed that staff (and the task force) would concentrate on the areas identified by Board members for consideration.

September 2007

Staff presented an issue paper at the September meeting that discussed general principles that will be relied upon in establishing the boundaries of the Federal Reporting Entity. Staff recommended the Federal Reporting Entity include entities, organizations, transactions, and activities for which:

- the federal government is financially accountable;
- the federal government exercises control over; and
- the nature and significance of their relationship with the federal government are such that the exclusion would cause the government's financial statements to be misleading or incomplete.

Staff also presented an outline of a proposed standard to assist with understanding how the general principles would be conveyed in a proposed standard. The general principles are consistent with the framework established in SFFAC 2 but will allow for an expansion of the detailed criteria that may go beyond what is in SFFAC 2 and resolve some of the outstanding issues.

The Board agreed with the general principles that will be relied upon in establishing the boundaries of the Federal Reporting Entity. Staff will move forward on developing detailed criteria for each.

July 2007

The Federal Entity project plan anticipated the project would result in both a proposed Concepts Statement and a Standards Statement and it would be important to delineate between what would be included in a Concepts versus Standards as we move forward. Staff prepared outline papers for each —a Proposed Concepts Statement on the Reporting Entity and a Proposed Standards Statement on the Reporting Entity and Consolidation which were included in the July briefing materials.

Originally, staff anticipated obtaining feedback on the outline paper for the proposed concepts paper at the July meeting. However, there was mixed feedback from Board members regarding the approach moving forward on the project. Specifically, some members were in favor of developing a proposed concept statement, while others believe the approach should be to go directly to developing a standard to address shortcomings in the entity area. Therefore, the July Board meeting was used to get the consensus of the Board on the direction for moving forward on the project. Staff presented three options to the Board and explained the options differ in how much conceptual work would be addressed in the project as follows:

OPTION 1

- *No Concepts Statement
- Focus on Developing Proposed Standards relating to Boundaries of the Federal Reporting Entity

* NO FOCUS ON REVISING SFFAC 2--SFFAC 2 would remain unless it is determined the proposed standards are not consistent with the concepts developed over 10 years ago. If so, portions of SFFAC 2 relating to entity would be amended accordingly.

OPTION 2

- *Brief Proposed Concepts Statement Communicating the Federal Reporting Entity is Broader than the U.S. Government Legal Entity (No discussion of organizational structure, defining levels, etc.)
- Focus on Developing Proposed Standards relating to Boundaries of the Federal Reporting Entity

* SOME FOCUS ON REVISING SFFAC 2. Focus on potential revisions to SFFAC 2 would be concurrent with developing proposed standards.

OPTION 3

- *Proposed Concepts Statement Communicating the Federal Reporting Entity is Broader than the U.S. Government Legal Entity and Communicating Organizational Structure of the U.S. Government, Definitions of Terms and Relationships, etc. (as presented in Outline Paper in July Board Materials)
- Develop Proposed Standards relating to Boundaries of the Federal Reporting Entity

* SFFAC 2 entity portion (par. 1-53) would be rescinded and replaced with the new Proposed Concepts on the Federal Reporting Entity.

Based on input from the Board, staff summarized that the best approach for moving forward on the Entity Project would be option 2 while including certain aspects of option 3. Specifically, staff will focus on developing proposed standards relating to the boundaries of the reporting entity and specific criteria for each. In addition, staff will concurrently work on amendments to SFFAC 2. Staff will also determine ways to include a discussion of key terms, organizational structure, etc. in the proposed amendments to SFFAC 2 and proposed standards.

March 2007

The March 2007 briefing paper discussed the issue area—Definition of entity / reporting entity. In assessing how entity / reporting entity should be defined for federal financial reporting purposes, staff considered the following questions:

- Does FASAB already define entity / reporting entity?
- Should there be a distinction between Entity and Reporting Entity?
- Is there a relationship between the reporting entity concept and the objectives of federal financial reporting? If so, should this be articulated?
- How do U.S. standard-setters and National and International standard-setters define Entity /Reporting Entity?
- Would a definition be best articulated in Concepts or Standards?

The issue paper is a first in a series of papers to consider several different aspects of the federal entity concept. Staff plans to devote the next several Board meetings to issue papers that will address the following:

- Characteristics of a Reporting Entity
- Boundaries of a Reporting Entity
- Kinds of “things” that could be included in an entity—the types of transactions, events and entities that may be encompassed within a reporting entity, e.g., other entities, activities, guarantees, functions, etc.
- Overall scope of the Federal Government Reporting Entity

The intent of assessing the definition of entity / reporting entity at the beginning of the project was to finalize terms and definitions to avoid future misunderstandings and misconceptions. Current FASAB standards and concepts utilize several different terms—such as entity, reporting entity, federal reporting entity, component entity, component reporting entity, Federal Government entity when referring to entity.

Currently, there has been a diverse approach to defining the term entity and reporting entity among other standard setters. For example, FASB and IASB do not define the terms, whereas GASB defines different levels for entity depending on the context, such as reporting unit, governmental unit, reporting entity and Financial Reporting entity.

Staff did not believe it was feasible to make a recommendation regarding a proposed definition for entity and reporting entity at this point because staff believed it would be helpful to assess the scope of the federal government as well as the characteristics of entities. Staff believes there is the potential of overlap between the definition of entity and the characteristics of an entity.

January 2007

Staff presented the Federal Entity Project Plan to the Board. Staff explained the project is part of the overall Conceptual Framework Project and is expected to last approximately three years. The project plan identifies issue areas that will be addressed in the project as well as milestone dates and included several appendices that contain pertinent excerpts from existing concepts, standards, and other reports that relate to the entity and consolidation issue from U.S., national and international standard setters that will be analyzed in greater detail throughout the project.

Staff obtained the Board’s feedback on the scope of the project, overall approach of the project, and issue areas identified. Overall, the Board members agreed with the Federal Entity Project Plan. Board members agreed that there are a number of entity issues, including a lot of unique government relationships that will need to be considered. Board members suggested that staff consider the following:

- reporting financial activities for which an entity may be responsible
- “unit of analysis” issue as it relates to the kinds of “things” that would be included in an entity—other entities, activities, guarantees, functions, etc
- often by law or regulation, a certain activity is required to publish a financial statement

Attachment 2- Project Background

- federally funded research development centers
- public-private partnerships in other countries
- situations where the government is contracting out things that used to be a government function
- Boards, councils, etc. that are not considered part of the federal government because they are not in the Budget, yet the President appoints the members
- consider what type of “related party disclosures” should be to disclose information about unique relationships (not be part of the federal entity)
- implication of the language in the Accountability for Tax Dollars Act

Staff will move forward on the Federal Entity Project. Staff plans to focus on the “unit of analysis” issue as it relates to the kinds of “things” that would be included in an entity—other entities, activities, guarantees, functions, etc. Staff will also begin research on Issue 1: Definition of Entity / Reporting Entity.